

M.A. PART - II,

Group (I) – Paper IV

PUBLIC ECONOMICS

Module 1 : Government in a market economy

Efficiency in resource allocation – First Best economy – Market Failures – rationale for State intervention – Regulation and taxation – Distributional objectives of the state – Social welfare functions – Decision making in government – Arrow Impossibility Theorem – Government Failures – Interest Group capture – Politico-Economic interactions – Privatization – Institutional Economics and the state (Corruption)

APPLICATIONS: Politico-Economic modeling in India

Module 2: Public Expenditure Rationale and Evaluation

Public goods – Nash-Cournot equilibrium and Pareto efficiency – Mechanisms for revelation of preferences – private provision of Public Goods – Club goods – Local public goods – Merit Goods

Public expenditure – Leviathan Hypothesis – Wagner's law – Bureaucracy and growth of government – Interest group and growth of government

Evaluation of government expenditure – welfare foundations of Social Cost Benefit analysis – Shadow pricing – UNINDO versus Little-Mirrlees approach – Relevance of Cost Benefit Analysis

APPLICATIONS: (a) Environmental Externalities (b) Valuation of Externalities in Cost Benefit analysis (c) Expenditure patterns in India

Module 3 : Taxation and Public Sector Pricing

Efficiency aspects of taxation: Excess Burden – Effects of Taxation on labour supply, savings and Risk Taking – Harberger Incidence model – Optimal Commodity and Income Taxation – general theory of Tax reform – Application to Developing Countries – Value Added Tax

II

Marginal cost Pricing – Departures from Marginal cost pricing – Ramsey prices – Regulatory aspects of pricing

APPLICATIONS: (a) Evolving revenue structure in pre and post economic reforms in India (b) Public sector pricing in India

Module 4 : Deficit, Debt and Solvency

Analytical aspects of fiscal policy – The government budget constraint (GBC) – Incorporating the GBC in IS-LM model: the Christ multiplier – Wealth effects and instability in the modified IS-LM model – Policy implications – The Solow-Blinder theorem – The measurement and determinants of fiscal deficits – The structural deficit – Discretionary fiscal policy changes – Seignorage and inflationary finance – The optimal inflation tax – Collection lags, fiscal erosion and the Olivia-Tanzi effect – Fiscal policy rules: types and characteristics – Evaluation of rules – Taxation, inflation and interest rates – The Darby-Tanzi effect – The sustainability of public debt – Policy consistency and solvency constraint.

Module 5 : Fiscal Policy and the Macroeconomy

Macroeconomic effects of fiscal deficits – inflation, money and fiscal deficits: the high inflation trap – Deficits, inflation and the 'tight money' paradox: the Sargent-Wallace hypothesis – Deficits, real interest rates and crowding out – Deficits, the current account and the exchange rate – Taxation, interest rate differentials and the direction of capital flows – The twin deficits approach to growth and inertial inflation – The IMF financial programming model – Financial crises: types, origin and signals – Analytical afterthoughts on the Asian crisis: Contagion, balance sheet and transfer problems – The modified Mundell-Fleming model of financial crisis – Monetary and fiscal policies in the modified model – Policy coordination and sustainability.

Module 6 : Public Finance with Many Jurisdictions

Fiscal Federalism – Fiscal decentralization – Decentralization theorem – tax assignment problem – Intergovernmental grants and revenue sharing – the Flypaper effects – Public Choice and Fiscal Federalism – federalism as a principal agent problem.

Interregional and international competition for tax bases – Tax competition for mobile capital – Fiscal aspects of factor mobility –

III

Corporate taxation, income shifting and transfer pricing – Taxation and foreign direct investment.

APPLICATIONS: (a) Fiscal Decentralisation in Indian Federalism and the role of Planning and Finance Commissions (b) Issues in local government reform in India

References:

1. Agenor P.R. and P.J. Montiel (1996), "Development Macroeconomics", Princeton University Press, Princeton, N.J. (Modules 4 and 5)
2. Atkinson A.B. and J.E. Stiglitz (1987), "Lectures in Public Economics", MacGraw Hill, London (Modules 1, 2 and 3)
3. Cook S.T. and P.M. Jackson (eds) (1979), " Issues in Fiscal Policy", Martin Robertson, Oxford (Module 4)
4. Dornbusch R. and S. Fischer and R. Startz (1998) " Macroeconomics", 7e, Mc-Graw Hill, New York (modules 4 and 5)
5. Drazen A. (2000), "Political Economy in Macroeconomics", Princeton University Press, Princeton, N.J. (Module 5)
6. Govinda Rao M. and T. Sen (1996): "Fiscal Federalism in India : Theory and Practice", Macmillan India Ltd. (Module 6)
7. Goyal A. (1999) "Developing Economy Macroeconomics", Allied Publishers, New Delhi. (Module 4 and 5).
8. Mueller D. (1989) " Public Choice II", CUP, Cambridge (Module 1)
9. North, D.C. (1990) – "Institutions, Institutional Change and Economic Performance", Cambridge University Press (Module 1)
10. Oates W. (1972) "Fiscal Federalism", Harcourt Brace Jovanovich, Inc., New York (Module 6)
11. Oates W. (1991) "Studies in Fiscal federalism", Edward Elgar, U.K. (Module 6)
12. Quigley J.M. and E. Smolensky (eds) (1994) " Modern Public Finance", Harvard University Press, Cambridge (Modules 2 and 3)

IV

13. Rao M.J.M. and R. Nallari (2001), "Macroeconomic Stabilization and Adjustment", Oxford University Press, New Delhi. (Module 4 and 5)
14. Starrett D. (1989) "Foundations of Public Economics", CUP, Cambridge (Modules 2 and 3)
15. Tanzi V. (ed) (1984) "Taxation, Inflation and Interest Rates", IMF, Washington D.C. (Module 5)
16. Wellisch D. (2000), "The Theory of Public Finance in a Federal State", CUP, Cambridge (Module 6)

